R5650-2

JAPAN · ECONOMIC · INSTITUTE

JEI REPORT

A Two-Part Report: A and B

NO. 3A January 19, 1990

JAPAN'S RELATIONS WITH THE "SOVIET BLOC"

Summary

The democratization that is sweeping through Eastern Europe and the general easing of East-West tensions have created new foreign policy challenges for Japan. One of its most immediate tasks, according to Prime Minister Toshiki Kaifu's major policy speech January 9 in West Germany, is to provide economic and technical assistance to the reformist Eastern European countries. Tokyo hopes not only to improve its relations with these countries but to demonstrate to its allies that Japan is willing to use its economic might to play a leading role in stabilizing the post-Cold War international order. Japanese business will remain cautious in developing ties with the eastern bloc, however. The extent to which Japan's economic relations with this region blossom -- a development several Eastern European governments have encouraged -- will depend on how well these countries make the transition to more market-driven economies.

The relaxation of East-West relations resulting in part from Soviet party leader Mikhail Gorbachev's glasnost policy also has created a more favorable environment for improved Japanese-Soviet relations. Since the close of World War II when the Soviet Union seized four islands northeast of Hokkaido -- the so-called Northern Territories -- relations between Tokyo and Moscow have been icy, and the two countries have yet to conclude a peace treaty. Bilateral trade also has been limited due in part to this long-standing disagreement. In need of Japanese capital and business expertise, Moscow recently has pushed for expanded bilateral economic ties independent of the territorial dispute. However, Japanese businessmen contend that their decisions concerning Soviet ventures will continue to hinge primarily on potential profitability rather than political factors.

Japan's European Initiative

Prime Minister Toshiki Kaifu kicked off a busy 10-day tour of Europe January 9 by expressing Japan's intent to help the fledgling democratic movement in Eastern Europe take firmer root and prosper. "It is incumbent upon us, the industrialized democracies, not to fall into complacency for having made the correct choice for freedom, democracy and the market economy," Mr. Kaifu told his West German hosts only blocks from the Berlin Wall. The Japanese government believes that developments in Eastern Europe will affect the structure of a new postwar international order and, thus, have extensive ramifications for the stability of the Asia Pacific region, he stated.

In what was billed as a major policy address on Japan's diplomacy in the new post-Cold War era, the prime minister pledged substantial injections of Japanese financial and technological assistance to Poland and Hungary. The almost $2 billion of assistance will include: $500 million in loans from the Export-Import Bank of Japan to each of the two countries over the next three years; $350 million in trade insurance to cover Poland's imports from Japan and other trade expenses; an increase from $200 million to $400 million worth of trade insurance for exports to Hungary; a $25 million grant for emergency food assistance for Poland; and $25 million in technological cooperation for both Poland and Hungary.

Tokyo's long-awaited aid package follows up several actions it took late last year to help certain Eastern European countries make the transition to a market-driven economy. In October the government announced the rescheduling of some Y56.3 billion ($402.1 million at Y140=$1.00) worth of Poland's debt. The following month Tokyo agreed to provide $200 million in official development assistance to Poland and Hungary, of which $150 million in low-interest loans will go to a fund created by the Group of 24[1] to help stabilize the Polish currency (see JEI Report No. 42B, November 3, 1989).

Reinforcement for the Group of 24 plan, in turn, came in December when Tokyo agreed to contribute an as-yet undetermined amount of capital to a $12 billion Eastern European development bank proposed by French President Francois Mitterand. Under the Mitterand plan a European Reconstruction and Development Bank for Eastern Europe, backed by 34 countries, would be established to support economic reforms in the eastern bloc. The 12-nation European Community has promised to put up a majority of the capital and would like Japan and the United States to contribute 8.5 percent each. Among the other potential participants are the six members of the European Free Trade Association, Canada and Australia.

[1]The Group of 24 is made up of the 12 European Community member states (Belgium, Denmark, France, West Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain and the United Kingdom), the six member states of the European Free Trade Association (Austria, Finland, Iceland, Norway, Sweden and Switzerland), Canada, the United States, Japan, Australia, New Zealand and Turkey.

The JEI REPORT (ISSN 0744-6489) is published weekly except for the New Year, Memorial Day, Labor Day, Thanksgiving and Christmas holiday weeks for $40 per year by the Japan Economic Institute of America, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036. Second class postage paid at Washington, D.C. POSTMASTERS: Send address changes to JEI REPORT, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036.

Mr. Kaifu's most recent pledge makes Japanese assistance to Eastern Europe second only to West Germany's promise of some $2.7 billion; U.S. aid to this region is expected to come to about half the Japanese level. Some Japanese analysts have pointed out that the magnitude of Tokyo's assistance is all the more significant in view of the fact that, unlike the United States, there is no Eastern European ethnic constituency in Japan.

In his "Berlin Wall" address Mr. Kaifu officially gave the green light to Poland and Hungary to begin negotiations with Japan on an investment protection treaty. Tokyo also intends to send a special mission to each of these countries in April to study the investment climate and "socioeconomic structures," the prime minister said. Mr. Kaifu emphasized that Japanese empathy for the economically beleaguered eastern bloc stems from its own immediate postwar experience, pointing out that Japan's capitalist economy and democratic political system are responsible for the tremendous prosperity it enjoys today. He held out the prospect of aid for East Germany, Czechoslovakia, Bulgaria and Romania further down the road but stressed that any economic assistance would be contingent on these countries' efforts to reform their political and economic systems.

The objective of Mr. Kaifu's mission carried perhaps more import than simply an aid announcement. The prime minister undertook his most extensive overseas trip since assuming office last August -- a tour that by January 18 will have taken him to West Germany, Belgium, France, Britain, Italy, Vatican City, Poland and Hungary -- to demonstrate Japan's willingness to play a meaningful role in helping to develop a new international order. Until recently the basic direction of Japan's policy toward the Soviet satellites was determined by the U.S.-Soviet Cold War. But as Soviet party leader Mikhail Gorbachev's policy of glasnost seems to be easing the tensions that circumscribed East-West relations during most of the postwar period, the individual countries that comprise the Western alliance and the Soviet bloc also seem to be reevaluating their own responses to members of the other group.

In Tokyo's view this apparent loosening of the postwar bipolar power configuration means that all nations, including Japan, must endeavor to help create a new, stable order.[2] Thus, the Japanese government, through its Eastern European initiative, in effect is acknowledging what the United States and other trading partners have urged for the past several years: Japan's tremendous economic power warrants a more active diplomacy that supports the interests and the needs of industrialized democracies. Mr. Kaifu's European initiative therefore may be viewed as Tokyo's effort to define more of a leadership role for itself within the Western alliance.

Broad foreign policy interests aside, Tokyo also undeniably regarded this diplomatic mission as an opportunity to cultivate closer relations with Western Europe. Japan's ties with the European Community historically have been weaker than the U.S.-Japan relationship. By providing economic assistance to the eastern bloc and helping Western Europe stabilize the continent, Tokyo hopes to build a reservoir of goodwill that will prevent formation of a "fortress Europe" as EC members formally integrate their economies by 1992. This

[2]Hisane Masaki and Takashi Kitazume, "Contributing to Stability Will be Aim of Foreign Policy," Japan Times, December 23, 1989.

task is all the more urgent since the dramatic changes in Eastern Europe create the potential for an even larger European economic bloc. There also is a view that Tokyo wants to develop closer ties with Western Europe to create greater leverage in its dealings with the United States on various trade disputes.

Official statements have underscored the benefits to be derived from closer relations. Mr. Kaifu urged that Japan and the countries of Western Europe expand cooperative efforts as "global partners" to better cope with the challenges ahead. Rather than dwell on Tokyo's apprehensions about "fortress Europe," the prime minister heartily endorsed the EC integration plan as one that will create a politically strong and economically robust Europe, an imperative element in helping shape a new global order.

On the sensitive subject of German reunification, Mr. Kaifu tread a fine line, not wanting to alienate European countries that may view such a prospect with trepidation, given Germany's past efforts to dominate the continent. Mr. Kaifu acknowledged the German people's "justifiable desire" for unification but expressed his wish that this evolve from within a "framework of peace and stability."

Further demonstrating Tokyo's interest in a higher profile role in Western alliance politics, the prime minister stressed the need for a coordinated Japanese, American and European policy toward China. Although condemning Beijing's suppression of the 1989 student-led democracy movement, Mr. Kaifu discouraged the continued isolation of China by Europe and the United States on the grounds that this creates a potentially destabilizing influence in the Asia Pacific region. He also pledged Japan's continued efforts to establish formal relations with North Korea under suitable circumstances and to facilitate a peaceful solution of the Cambodian problem.

In addition to improving relations with both Eastern and Western Europe, Mr. Kaifu's diplomatic foray was intended to send some important signals to the Soviet Union concerning Japan's desire to improve bilateral relations -- but on Tokyo's terms. Some Japanese aid officials were said to be hoping that Moscow will view Japanese assistance to Eastern Europe as a positive gesture, particularly since the aid could ease the Soviet Union's financial obligations to the region.

However, there appears to be another body of opinion within the Japanese government that would like to see the Kaifu initiative serve as a warning to the Soviet Union in that Japan, a country with which Moscow never signed a peace treaty after World War II, has moved into its sphere of influence in a major way. As a Foreign Ministry official reportedly stated, "Japan's flexing its financial muscle in assisting reformist Eastern European countries [hopefully] will force the Soviet Union to sit up and take notice." Moreover, Mr. Kaifu used his Berlin Wall speech to caution Western European allies not to be seduced by glasnost. The Soviet Union remains a military superpower that has yet to apply "new thinking" to Asia, the prime minister warned. He singled out Soviet occupation of the islands north of Hokkaido claimed by Japan as further evidence of distrustful behavior.

Economic Relations with Eastern Europe: Proceed with Caution

Japan's trade relations with Eastern Europe to date have not been extensive (see Table). Japanese business representatives cite several reasons for

Japan's Trade with Eastern Europe, 1980-88

(in millions of dollars)

	1980	1985	1986	1987	1988
Eastern Europe					
Exports	$807,217	$563,759	$682,026	$716,673	$775,831
Imports	225,760	316,214	344,519	475,903	691,611
Trade Balance	551,457	247,545	337,507	240,770	84,220
Bulgaria					
Exports	65,316	123,421	160,513	117,222	160,590
Imports	22,071	22,118	18,087	24,851	49,546
Trade Balance	43,245	101,303	142,426	92,371	111,044
Czechoslovakia					
Exports	63,466	56,935	61,759	63,086	48,243
Imports	49,379	53,110	56,886	80,817	116,891
Trade Balance	14,087	3,825	4,873	-17,731	-68,576
East Germany					
Exports	138,666	137,133	119,293	201,138	154,734
Imports	39,689	43,967	51,883	59,231	92,602
Trade Balance	98,977	93,166	67,410	141,907	62,132
Hungary					
Exports	107,320	83,247	82,271	91,733	101,338
Imports	17,447	52,306	61,265	97,928	163,816
Trade Balance	89,873	30,941	21,006	-6,195	-62,478
Poland					
Exports	228,176	73,214	146,087	166,862	258,037
Imports	61,571	67,443	55,779	75,587	115,989
Trade Balance	166,605	5,771	90,308	91,275	142,048
Romania					
Exports	202,655	89,566	111,476	76,436	52,597
Imports	65,577	65,045	95,415	132,756	142,175
Trade Balance	137,078	24,521	16,061	-56,320	-89,578

Source: Japan Tariff Association

the low level of economic activity in this region. Geographic distance is a not-insignificant factor: Japanese businessmen understandably feel more comfortable pursuing new ventures in their own backyards, particularly when they do not feel an affinity with the area's cultural, political or economic conditions. This factor combined with the eastern bloc's heretofore inflexible centrally planned economies, its lack of convertible currencies and the export restrictions that come with Japan's Cocom (Coordinating Committee for Multilateral Export Controls) membership have added up to unprofitable prospects.

Even as the democracy movement gathers steam, however, the Japanese private sector is reluctant to charge into Eastern Europe. "Of course, I welcome

the reforms, but the rapid changes make me confused, too," says Shinichi Ishikawa, general manager of the Soviet department of Sumitomo Corp. "For the time being, we must cope with the situation in the most careful manner."[3]

Daihatsu Motor Co., Ltd., which is interested in setting up a manufacturing facility in Poland, also decided to proceed with caution. The automaker is concerned that, despite ongoing liberalization, it still will experience difficulties in freely exporting Polish-made cars to other nations. Daihatsu officials feel that export restrictions imposed by Comecon (Council for Mutual Economic Assistance), the Soviet bloc's 40-year-old trading system, also must be eased to complement the transition of some eastern bloc countries to a more capitalist system.

Nevertheless, the Japanese private sector expects that as political and economic reforms take root in this part of the world the potential for profitable business activities will improve. And for this reason Japan's business community feels it cannot afford not to be involved in Eastern European developments. Tokyo's unveiling of its ambitious aid program no doubt already has helped create more favorable investment conditions. In an announcement that coincided with Mr. Kaifu's Berlin Wall speech, Suzuki Motor Co., Ltd. revealed January 9 that it had decided to go ahead with plans to assemble subcompact cars in Hungary.

The project is the first of its kind in Eastern Europe involving a Japanese automotive manufacturer. The Y20 billion ($142.9 million) assembly plant -- financed by Suzuki (30 percent), trader C. Itoh & Co., Ltd. (10 percent), a group of Hungarian automakers (50 percent) and the World Bank's International Finance Corp. (10 percent) -- will start turning out cars in 1992 at an initial annual rate of 15,000 units for sale throughout Europe. Most of the money Suzuki and C. Itoh have to put up is expected to take the form of low-cost Ex-Im Bank loans and count as part of Japan's aid package for Hungary.

Polish Prime Minister Tadeusz Mazowiecki has urged active Japanese investment in Poland so his country can become a production base for Europe. "Poland can be a bridge between Japan and Europe as our country is located close to Western Europe," Mr. Mazowiecki said in a January 7 statement strategically timed just prior to Mr. Kaifu's visit. He specifically has requested Japanese expertise in the fields of finance, electronics and communications.

Judging by Mr. Kaifu's enthusiastic endorsement January 4 of greater technical exchanges with the eastern bloc, the Polish leader no doubt had little trouble convincing his guest that Poland needs more of the vaunted Japanese business expertise. The challenge for both Mr. Kaifu and Mr. Mazowiecki will be in convincing the Japanese business community of the commercial benefits.

Although the Daihatsu project still is on hold, other Japanese companies appear more encouraged by what they see happening in Warsaw. Asahi Glass Co., Ltd. announced November 12 its participation in a joint venture with the Polish government to construct a state-of-the-art plant to manufacture sheet glass. The estimated $100 million project, with a planned output of 140,000 metric

[3]Konosuke Kuwabara, "East Europe Reform May Spur Business Links," Japan Economic Journal, November 25, 1989.

tons per year, gained momentum when the World Bank's IFC unit agreed to grant loans on soft terms. Trader Toyo Menka Kaisha, Ltd. will team up with Asahi Glass on what at this stage promises to be the largest Japan-Poland project.

Despite these moves, business analysts are not optimistic that the Suzuki and the Asahi Glass ventures are indicative of a rush of Japanese business into the region. The unsettled nature of political and economic conditions there remains a major concern. In addition, the underdeveloped business infrastructure in many of these countries will continue to be a major disincentive to Japanese investment. Private-sector analysts contend that most Japanese companies will choose to wait at least five years before considering large-scale ventures in the region. Some go so far as to predict that for the next 10 years these economic problems and uncertainties will impede an expansion of trade between Japan and Eastern Europe much above current levels, regardless of progress in democratization and improved East-West relations.[4]

It also is unclear whether the Japanese government will continue to provide billions of dollars of financial assistance to Eastern Europe. Although the United States and Western Europe no doubt will urge Tokyo to accept this as more than just a one-time burden, Japanese aid officials anticipate difficulty repeating FY 1989's $2 billion in expected disbursements due to tight budgetary conditions and demands from "traditional" aid recipients. Moreover, the Japanese people have yet to be persuaded that their tax monies should be used to support Eastern European reformist countries rather than improve their own living standards, which lag behind those of most other Western industrialized nations.[5] As if to forewarn Japan's Western partners that the "well" is not bottomless, officials have sought to portray Tokyo's overall aid effort as a "camphor injection" to ease the reformist countries' transition to more open political and economic systems.

Glasnost and Japanese-Soviet Relations

Political/Economic Linkage - Soviet party leader Gorbachev's policy of openness or glasnost -- a policy that many have acknowledged as opening the way for democratic changes in Eastern Europe -- also improves the prospects for friendlier Japanese-Soviet relations. Actually, Mr. Gorbachev for the past three years has made a concerted effort to usher in an era of improved bilateral relations. His "friendship initiative" began in full force in July 1986 when, as part of a major address on Moscow's Asian policy, the Soviet leader referred to Japan as a "power of top-level significance." That same year saw the conclusion of several agreements that covered a broad range of subjects and, after the deep freeze that had characterized bilateral diplomacy since the mid-1970s, restored regular, working-level consultations, including alternate annual visits by the two countries' foreign ministers. There also was a commitment to continue work toward a peace treaty between the two countries (see JEI Report No. 36A, September 23, 1988).

The dispute concerning Soviet occupation of the islands north of Hokkaido, which Japan calls the Northern Territories, has blocked conclusion of a Japanese-Soviet peace treaty for the past 44 years. The islands in question

[4]Masaki and Kitazume, op. cit.

[5]Masaki and Kitazume, op. cit.

-- Kunashiri, Etorofu, Shikotan and the Habomai Island group -- were seized by Moscow at the close of World War II after the allied powers agreed that the Kurile chain should become Soviet territory. To this day the Kremlin doggedly insists that its occupation of the islands is justified under international law. Tokyo, however, has demanded the return of the territory, arguing that these particular islands not only traditionally have belonged to Japan but are not among the territories awarded to Moscow by the allied powers -- a position supported by the United States. The Japanese government has insisted that conclusion of a peace treaty with its Russian neighbor is contingent on settlement of this issue. And it has linked resolution of the territorial dispute to any significant expansion of economic relations with the Soviet Union.

This linkage has been particularly bothersome for the Soviet Union since economic interests appear to be the primary motivation for Moscow's friendlier approach to Tokyo. As with Eastern Europe, Japan's trade with the Soviet Union, relative to other industrial countries, really has never taken off despite the potential offered by geographic proximity and complementary needs (see Chart). At the same time, the Soviet economy sorely needs the shot of adrenalin that Japanese credits and direct investment would provide, particularly in the high technology sector.

Japan's Total Trade with Major Trading Partners

(in millions of dollars)

Japanese business appeared keenly interested in becoming involved in the development of Siberian resources during its energy-panic days of the 1970s. Moscow, in turn, attempted to use Siberian development as a lure for Japanese capital and business expertise, hinting that progress on the Northern Territories might be in the offing; it later refused to budge from its position. Now, however, the vast resources of the Soviet Union's largely undeveloped Siberian region no longer hold such a strong attraction for Tokyo. Major industrial power consumers are using energy more efficiently, oil prices have declined and Japanese industry has advanced technologically, lessening its natural resource requirements.

Bypassing the government, Moscow has urged Japanese business to invest in joint ventures with Soviet enterprises as a means of acquiring Japanese

commercial acumen and developing export industries. Japanese businessmen have not forged links in the Soviet Union for many of the same reasons they remain cautious about developing ties with Eastern Europe; the Soviet business infrastructure is very underdeveloped, which, given the inconvertibility of the ruble, spells questionable profitability. In addition, Soviet manufactured imports have little appeal to the sophisticated and quality-conscious Japanese consumer. Japanese business would rather look toward China and Southeast Asia as potential suppliers of low technology, low-priced consumer goods.

Recognizing its position of strength Tokyo shrewdly hangs onto its economic trump card in an effort to force Moscow to adopt a more flexible approach to the territorial problem. During a November 1989 meeting in Tokyo with a senior Soviet politburo member, Foreign Minister Taro Nakayama emphasized that a settlement of the Northern Territories issue would create "great expectations" concerning future bilateral economic cooperation, suggesting that Tokyo has not wavered in its linkage of politics and economics. Nevertheless, the Kremlin continues to stall on the Northern Territories, apparently hoping that it eventually can achieve greater Japanese trade and investment simply through protestations of friendship.

Progress on the Northern Territories? - The November visit to Tokyo of Alexsandr Yakovlev, reportedly one of Mr. Gorbachev's top lieutenants and the architect of glasnost, sparked a flurry of speculation that the Soviet Union was testing the waters for a possible compromise on the Northern Territories question (see JEI Report No. 45B, December 1, 1989). In a November 14 meeting with ruling Liberal Democratic Party secretary general Ichiro Ozawa, Mr. Yakovlev suggested that there might be a "third way" to break the longstanding deadlock over the islands. Although he did not specify exactly what he meant by a "third way," some Japanese political observers speculated that he may have had in mind the return of part of the disputed territory (possibly Habomai and Shikotan), a concession Moscow was willing to make at the time of a 1956 normalization agreement with Tokyo but which the Soviets subsequently withdrew (see JEI Report No. 36A, September 23, 1988).

Mr. Yakovlev the following day quickly denied that concessions on the Northern Territories were in the offing. He explained that what he meant to say was that bilateral discussions should proceed in other, nonpolitical areas, such as economic relations and cultural exchanges, regardless of the status of the territorial problem. This message was reiterated in subsequent statements by Soviet Vice Foreign Minister Igor Rogachev and Soviet Ambassador to Japan Nikolai Soloviev.

At the December 19 close of yet another fruitless session of the bilateral working group on treaty negotiations, Mr. Rogachev urged Tokyo to reconsider its opposition to Moscow's proposal that each side come up with drafts for a peace treaty by early 1990. Japanese officials regard this initiative as a blatant attempt to sidestep the territorial question. The Soviet vice foreign minister insisted that the treaty talks would be more constructive and concrete if both sides prepared drafts for further discussion. He pointed out that the two governments are not closer to resolving the Northern Territories question due primarily to Tokyo's refusal to recognize the "justness" of the Soviet position. Following up this message, Mr. Soloviev, in his New Year's message to the Japanese people, pinned the blame for the lack of bilateral progress in economic, technological and other relations on Japan's demand for the return of the islands.

Despite the unequivocal nature of these statements, some Japanese analysts remain optimistic that the Soviet Union will come forth with some concessions during the course of preparations for Mr. Gorbachev's 1991 trip to Japan. The March visit of Foreign Minister Eduard Shevardnadze will enable these individuals to further test their theory. Although a Diet resolution calls for the simultaneous return of all the islands in question, the Foreign Ministry has indicated that Tokyo may not remain rigid on this point if interim actions lead to the eventual return of the four islands.

The prevailing view among Japanese officials, however, is that the Kremlin will not bend on the Northern Territories question, at least in the coming year. From a domestic political standpoint, the secession movement that is gaining momentum in the Baltic states makes it virtually impossible for Mr. Gorbachev to concede on any territorial question involving another country's claims.

Moscow also places great strategic value on these islands. There are only two practical sea-lanes for the Soviet naval fleet to take out of Vladivostok -- the Korea Strait between South Korea and Kyushu and through the Kurile chain separating the Sea of Okhotsk from the Pacific Ocean. Since the Korea Strait is under continual surveillance by the United States and Japan, the route through the Kurile chain acquires all the more significance. Were the islands to revert to Japan, Soviet access to the Pacific Ocean would be more difficult.

Another consideration that appears to underlie the Kremlin's refusal to relinquish the territory is its concern that the return of the four islands will not completely satisfy Japan. Moscow fears Tokyo might then demand the northern part of the Kuriles as well as southern Sakhalin. Furthermore, Soviet acquiescence on this issue could appear to prove the effectiveness of taking a hard line against the Soviets and encourage further demands in Japan's diplomacy with the Soviet Union. In sum -- glasnost rhetoric aside -- the outlook for resolution of the territorial dispute and formal rapprochement continues to look bleak.

Interestingly, Japanese private-sector representatives maintain that conclusion of a Japanese-Soviet peace treaty would not necessarily open a flood gate of bilateral commerce. In one Japanese businessman's words, "The Northern Territories issue really has no bearing on decisions concerning Japanese-Soviet ventures." Admittedly, some Japanese companies feel constrained by Tokyo's policy and eye with envy the higher profile and greater activity now enjoyed by their Western counterparts in Moscow. But Japanese firms will continue to put their money wherever they expect profits. In the foreseeable future this probably will not be in Siberia.

Soviet Military Threat - There are two schools of thought in Japan on how to handle the Northern Territories dispute. The "entrance theory" holds that to improve relations with the Soviet Union the territorial dispute should be resolved first. The "exit theory" states that the goodwill engendered through cooperation in the economic, technological and cultural fields will enable the territorial dispute to be resolved farther down the road. The Japanese government and a large majority of the private sector firmly subscribe to the "entrance" approach due to their deeply held suspicions about Moscow's designs on the region. They note that during most of the postwar period the Soviet

Union has compiled a record of military activity in the Pacific region that can best be described as hostile and expansionistic.

Judging by Mr. Kaifu's remarks in West Berlin, Tokyo still firmly believes that the Soviet Union poses a serious security threat to the region, regardless of the progress Moscow and Washington have made in the area of arms reduction. The Kremlin has rebutted that this view "conflicts with reality." Soviet Vice Foreign Minister Rogachev in December stressed that the Soviet Union has undertaken many unilateral steps to lower military tension in the region, citing Moscow's decision to cut its forces on its easternmost flank by 120,000 troops as well as its proposal, rejected by Japan and the United States, for regional military talks with Tokyo and Washington.

Tokyo is not swayed by either the statistics or the peace initiative. "The Soviet threat is real and growing," says Lieutenant General Atsushi Shima, commander of the Ground Self-Defense Force's Northern Army. "Modernization of their military capabilities is offsetting any quantitative reduction in forces." U.S. military intelligence concurs with this assessment (see JEI Report No. 40B, October 20, 1989).

Japanese defense officials especially are concerned about the steady buildup of Soviet forces on the northern islands. Moscow in 1978 deployed troops to the Northern Territories and constructed military installations on two of the islands (Kunashiri and Etorofu). The equivalent of an army division and 40 MiG-23 fighter aircraft currently are stationed on these islands. All told, the Soviet Union has 43 divisions on its eastern flank, along with about 100 warships, 140 submarines and some 2,400 aircraft. Given the estimated 390,000 Soviet troops now stationed along the coastal regions of Sakhalin, the Okhotsk Sea and the Kamchatka peninsula, it is no wonder that in Tokyo's eyes Moscow remains a clear and present danger to Japanese security.

As part of its glasnost policy the Gorbachev government has changed the Soviets' diplomatic style, perhaps recognizing that its past heavy-handed activities only heightened anti-Soviet feelings in Japan and caused its island neighbor to increase its defenses in concert with its American ally. Specifically, the harassment created by repeated violations of Japanese air space and seizures of Japanese fishing vessels, which may or may not have drifted into Soviet waters, appears to have decreased.

In late December, for example, Soviet authorities notified Japanese air traffic controllers in advance of the flight plans for 12 Soviet military aircraft that were flying from the Soviet base at Cam Ranh Bay in Vietnam to the eastern coast of the Soviet Union, a course that would take them over the waters south of Okinawa. This courtesy on Moscow's part is all the more significant since the flight path technically did not violate Japanese air space.

Japan remains guarded, however. The years of enmity between the two countries engenders vivid memories for the Japanese. Tokyo's view of the implications of Mr. Gorbachev's efforts to improve relations with the West and bolster the Soviet economy is best summed up by one Foreign Ministry official's remark: "There is no guarantee that helping to improve the Soviet economy will bring an end to Moscow's military adventurism."

Conclusion: Better Atmospherics But Limited Commerce

For the foreseeable future the countries of the Soviet bloc will not have any strong attraction for Japan in economic terms. However, Tokyo probably will remain strongly committed to supporting the Eastern European reform movement in recognition of its responsibilities as a major global power. Mr. Gorbachev's glasnost policy is a historic development that demands a more activist response from Japan. Tokyo, through its Eastern European aid initiative, has indicated to the world that it is ready to expand its diplomatic role in accordance with its economic power.

According to Japanese foreign policy analysts, Japan's new-found diplomatic leadership will not conflict with or diverge from the U.S. approach. Like Washington, Tokyo can be expected to continue conditioning its economic assistance to Eastern Europe on recipients' efforts to implement effective political and economic reforms. Japan also may show more restraint than some of its West European allies in supporting German reunification or greater economic integration of Eastern and Western Europe due, in part, to the objectivity it can show because it lacks a cultural and geographic connection with this continent.

The outlook for Japanese-Soviet relations is unclear. While remaining suspicious of Mr. Gorbachev's ulterior motives, Tokyo nevertheless recognizes that prospects for improved relations are much more likely under his administration and has responded in kind with its own goodwill gestures. Yomiuri Shimbun reported January 5 one such gesture: Japan has decided to support the Soviet Union's bid to join the General Agreement on Tariffs and Trade as an observer.

In an effort to further warm relations, Shintaro Abe, former LDP secretary general, January 13 led a group of LDP Diet members to Moscow. Mr. Abe met January 15 with Mr. Gorbachev to try to facilitate a breakthrough on the Northern Territories/peace treaty logjam. That the Soviet leader did not cancel this meeting due to mounting problems in the Baltic states (but did postpone his January 16 meeting with British Labor Party leader Neil Kinnock) is a strong indication of the importance the Kremlin places on improved bilateral relations. This was not lost on Tokyo: Foreign Minister Nakayama said the Japanese government "welcomed this decision . . . [which] demonstrated the Soviet government's enthusiasm to improve its relations with Japan."

Mr. Gorbachev's success in weathering his current domestic difficulties could have important implications for future Japanese-Soviet relations. If the primary impetus for improved relations indeed comes from the policy convictions of the Kremlin's current leader, any lessening of his political power might wield another setback to the Moscow-Tokyo dialogue.

For further information, contact Barbara Wanner.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.